

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

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|--------------------------|---|-----------------------------|
| UNITED STATES OF AMERICA | : | Hon. |
| | : | |
| | : | Crim. No. 11- |
| | : | |
| v. | : | |
| | : | 15 U.S.C. §§ 78j(b) and |
| | : | 78ff; 17 C.F.R. § 240.10b-5 |
| DOUGLAS GREEN | : | 18 U.S.C. § 2 |

INFORMATION

The defendant having waived in open court prosecution by Indictment, the United States Attorney for the District of New Jersey charges:

1. At all times relevant to this Information:

a. An introducing broker was a broker-dealer that contracted with a clearing firm to handle the execution and settlement of orders that the introducing broker received from its clients or proprietary trading desk. The clearing firm received payments and securities from clients and handled record keeping. The introducing broker earned commissions on transactions in its clients' accounts and typically paid a fee to the clearing firm for each trade, and paid interest on margin loans that the clearing firm made to the introducing broker's clients.

b. Collateralized mortgage obligation bonds ("CMOs") were a type of mortgage backed security which represented claims

to cash flows from large pools of home mortgages.

c. Crocker Securities, which maintained its primary place of business in Walnut Creek, California, was a broker dealer registered with the U.S. Securities and Exchange Commission. Crocker Securities was an introducing broker and utilized the clearing services of Pershing LLC.

d. Pershing LLC, a wholly-owned subsidiary of Bank of New York Mellon, maintained its principal place of business in Jersey City, New Jersey. Pershing, one of the largest clearing firms in the United States, contracted with Crocker Securities to clear its trades and maintain custody of the cash and securities controlled by Crocker Securities.

e. Defendant DOUGLAS GREEN, a resident of Parkland, Florida, was a registered representative associated with Crocker Securities, LLC. Green, who held a Series 7 license, traded CMOs on behalf of Crocker Securities from an office in Boca Raton, Florida.

f. The CMOs that defendant DOUGLAS GREEN purchased and sold on behalf of Crocker were traded "over-the-counter" from dealer to dealer and were not traded on an exchange or other reportable market.

The Scheme to Defraud

2. From in or around May 2004 to in or around July 2008, in the District of New Jersey, and elsewhere, defendant

DOUGLAS GREEN

by use of the means and instrumentalities of interstate commerce, the mails, and facilities of national securities exchanges, directly and indirectly, knowingly and willfully used manipulative and deceptive devices and contrivances in contravention of Title 17, Code of Federal Regulations, Section 240.10b-5 (Rule "10b-5") in connection with the purchase and sale of securities by (i) employing devices, schemes, and artifices to defraud members of the investing public; (ii) making untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (iii) engaging in acts, practices, and a course of business which operated and would operate as a fraud and deceit upon Pershing, in violation of Title 15, United States Code, Sections 78j(b) and 78ff(a), and Title 17, Code of Federal Regulations, Section 240-10b-5.

Object

3. It was the object of the scheme to defraud for defendant DOUGLAS GREEN to manipulate the price of certain CMOs in order to conceal significant trading losses in a Crocker Securities proprietary trading account he managed on behalf of the firm.

Means and Methods of the Scheme

4. In or about 2000, defendant DOUGLAS GREEN began trading

CMOs worth millions of dollars in a Crocker Securities proprietary trading account. As part of his trading strategy, defendant DOUGLAS GREEN entered into hedge transactions in order to lower the risk in the portfolio. In a typical hedging transaction, a trader utilizes opposite positions in a market in order to reduce risk and volatility.

5. In or about June 2004, the price of certain CMOs decreased dramatically. In an effort to reduce his exposure to these declining prices, defendant DOUGLAS GREEN increased his hedge positions. Shortly thereafter, the price of the CMOs quickly recovered. Defendant DOUGLAS GREEN was unable to liquidate his hedge positions as the market recovered causing an initial trading loss of approximately \$500,000. During the fraudulent scheme, the CMO market continued to increase causing larger and larger losses in the hedge positions.

6. To hide these losses, defendant DOUGLAS GREEN entered into fraudulent transactions to increase the price of the CMOs to correspond to the increasing losses suffered in the Crocker Securities trading account.

7. To manipulate the price of the CMOs, defendant DOUGLAS GREEN first entered a fraudulent sale of the CMOs into the Pershing trading system that Crocker Securities used to execute trades. In fabricating these transactions, defendant DOUGLAS GREEN provided a fictitious purchaser of the CMO, contrived a

purported sale price and set the alleged settlement date for 30 days after the date of the trade.

8. As the settlement dates approached, defendant DOUGLAS GREEN cancelled the fraudulent sales so the they would not actually settle and thereby raise Pershing's concerns by highlighting the fact that the counter-parties did not know the trades.

9. Next, in order to continue to manipulate the price of the CMOs and avoid detection of his fraudulent scheme, defendant DOUGLAS GREEN structured the simultaneous sale and purchase of the CMOs. Defendant DOUGLAS GREEN utilized a network of other bond traders who simply purchased the CMOs at defendant DOUGLAS GREEN's direction and immediately sold them back to defendant DOUGLAS GREEN at slightly elevated prices. This pattern of fraudulent activity occurred month after month for more than four years (the length of the fraudulent scheme).

10. What follows is an example of one month's activity in one CMO that defendant DOUGLAS GREEN fraudulently traded:

(a) On or about July 30, 2007, defendant DOUGLAS GREEN owned a CMO at a price of \$115.84375. On that day, defendant DOUGLAS GREEN purportedly sold the CMO to another bond trading firm ("Firm 1") at a price of \$115.96875 with an August 31, 2007 settlement date;

(b) On or about August 27, 2007, four days before

settlement, defendant DOUGLAS GREEN cancelled the trade with Firm 1 so it would not become aware of the transaction;

(c) That same day, defendant DOUGLAS GREEN booked a sale of the same CMO at the same price as the fraudulent sale, but this time to one of the bond trading firms ("Firm 2") that defendant DOUGLAS GREEN utilized month after month to flip these CMOs;

(d) On or about August 30, 2007, defendant DOUGLAS GREEN bought the bonds back from Firm 2 at a price of \$116.00;

(e) The next month, defendant DOUGLAS GREEN repeated this pattern of fraudulent activity to further elevate the price of the CMO.

11. From in or about June 2004 through in or about June 2008, defendant DOUGLAS GREEN artificially inflated the price of the CMOs by millions of dollars. In fact, when the scheme collapsed, Pershing lost more than \$9 million.

12. During the fraudulent scheme, defendant DOUGLAS GREEN used the proceeds of his manipulative trading to cover the growing losses in his hedge positions and to pay for personal expenses, including \$35,000 in monthly mortgage payments on two properties in Florida.

In violation of Title 15, United States Code, Sections
78j(b) and 78ff(a) and Title 17, Code of Federal Regulations,
Section 240-10b-5, and Title 18, United States Code, Section 2.

A TRUE BILL

FOREPERSON



PAUL J. FISHMAN
UNITED STATES ATTORNEY

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UNITED STATES OF AMERICA

v.

DOUGLAS GREEN

**INFORMATION FOR VIOLATIONS OF
15 U.S.C. §§ 78j(b) and 78ff and 17 C.F.R. § 240.10b-5,
and 18 U.S.C. § 2.**

PAUL J. FISHMAN

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JUSTIN W. ARNOLD

ASSISTANT U.S. ATTORNEY

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